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C O N F I D E N T I A L SECTION 01 OF 03 ANKARA 002489

SIPDIS

E.O. 12958: DECL: 05/03/2029

TAGS: [MARR](#) [PGOV](#) [PREL](#) [PINR](#) [TU](#)

SUBJECT: TURKS REORGANIZING MILITARY PROCUREMENT WHILE  
PLAYING HARDBALL WITH US COMPANIES

(U) Classified by Ambassador Eric S. Edelman. Reasons: 1.4  
(b) and (d).

11. (U) This report contains sensitive business information.  
Please protect accordingly.

12. (C) Summary: Undersecretary for Defense Industries Murad Bayar told the Ambassador April 30 that, despite his own efforts to limit the impact of EU-mandated reforms on his organization, he was hopeful of simplifying Turkey's military procurement bureaucracy by clearly delineating the roles of the different organizations currently involved in the process. On specific procurement programs, Bayar presented an unyielding position toward two American suppliers, Bell Helicopter/Textron (attack helicopters) and Sikorsky (Sea Hawks), but a less-confrontational attitude toward General Atomics (unmanned aerial vehicles -- UAVs). He hoped that the attack helicopter buy might be decided within two weeks -- a prediction we have heard numerous times over the years. Bayar is an intelligent and savvy individual, but his comments suggest that he is not interested in making the sale of defense items to Turkey -- traditionally a frustratingly slow and difficult process -- easier any time soon. End summary.

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Restructuring Defense Procurement  
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13. (C) The Ambassador called on Murad Bayar, the head of the Undersecretariat for Defense Industries (SSM), on April 30. In response to a question, Bayar downplayed the significance of government reform legislation currently before the parliament, terming it a "technical issue" for SSM. The bill would eliminate independent undersecretariats except those that report to the prime minister. SSM reports to the Defense Minister. Bayar said the important thing was to preserve SSM's civilian character, direct access to the Defense Minister and independence, regardless of what its name or his title would become. Continued access to the ultimate decision making body on procurements, the Executive Committee (consisting of the PM, CHOD and MOD), would be essential. Bayar allowed that "others" may have plans for greater integration of SSM's functions into the Ministry of National Defense (MND), but "not me nor the government," he said.

14. (C) That said, SSM was looking at how it interfaces with the Turkish General Staff (TGS) and MND, according to Bayar. Although a civilian procurement agency had been an experiment when SSM was established in 1985, everyone including the military accepts this now. But part of the reorganization bill is the principle of one organization for one function. Currently, MND and SSM spend about \$1 billion/year each on procurement for the military, with TGS and the services themselves spending a total of about \$0.5 billion. The division of labor among the entities is not clear and they need better defined roles, he continued. He agreed with the Ambassador that some tension between operators and procurement officials was a natural part of the process, but he maintained that the military should restrict itself to defining requirements and setting priorities, and stay out of purely procurement issues such as company selection.

15. (C) Regarding SSM's budget, currently outside the normal GOT budgeting system and financed with a number of "sin taxes," Bayar acknowledged that this special budget was to be phased out by 2007 in accordance with a previous package of reforms passed by the current government. Beginning with the 2005 budget, SSM's new funding would need to go through a system set up for "special income funds," giving parliament visibility on SSM's spending. (Note: Finance Ministry sources tell us that this procedure would apply only for the 2006 budget.) Bayar noted a number of exemptions to normal budget procedures SSM would need, such as the authority to commit to multi-year obligations, as well as the ability to convert appropriated funds into foreign currency upon receipt

and to hold those funds until contract negotiations are complete and payments begin. (Futures contracts would be prohibitively expensive, he explained.) Bayar downplayed the potential impact on the amount SSM would have at its disposal in the future. He noted that the GOT "could" designate the same level of revenues to SSM's budget as currently contribute to it, although he allowed that in the end, the government would have the final say in the amount spent on military procurements.

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Everything is too Expensive  
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#### ATTACK HELICOPTERS

16. (SBU) Bayar told the Ambassador that the ATAK program (to procure attack helicopters) was his number one priority. The Ambassador noted that he had been contacted by Bell Helicopter, which was sending a team out to talk to SSM the following week, and asked about the program's status. Bayar said that he wanted to "resolve the short list." (Comment: SSM is reportedly in discussion not only with Bell but also the Russian firm Kamov that has partnered with an Israeli concern in the ATAK competition.) The Executive Committee would be meeting within the next two weeks and he expected that it would either decide to go with one of the two competing proposals, or to cancel the program and start over. He noted several factors suggesting that the competitive environment might be more favorable to Turkey now than six years earlier when Bell and Kamov were selected:

-- Boeing is telling SSM that Apaches are now less expensive than they used to be;

-- The Tiger attack helicopter was under-powered, but now has a better engine;

-- Agusta had been eliminated from the competition for political reasons (PKK leader Ocalan was hiding out in Italy at the time) that no longer apply; and,

-- Russia recently bought a new helicopter from Kamov, not the one proposed for Turkey, but this new model might be worth considering.

17. (SBU) The Ambassador recalled a letter Bayar had sent to ODC-Turkey the previous day demanding all software source codes and USG approval of Turkish Industry performing all system integration. It also requested helicopters be provided without mission computers as these were to be developed in Turkey either with or without the assistance of Northrup-Grummon. The Ambassador noted that delivering an aircraft without a mission computer was unprecedented and, while it was primarily a US Navy issue to decide, he thought it unlikely to occur, especially in two weeks, the deadline SSM set. Moreover, if the program is canceled and re-bid, American companies would be daunted by Bell's experience of difficult negotiations and great expense over the past seven years in vain. These seemed to be disincentives to competing the project again. Bayar agreed that there were some disincentives, but argued Turkey was flexible on the mission computer. The important element was that Turkish industry have the ability to completely manage the configuration of the aircraft. With only the Marines and Turkey as major customers, the number of units would be small and SSM was not confident of Bell's ability to service the aircraft for the 20-30 years it would likely remain in Turkey's inventory. The Ambassador and ODC-T Chief MajGen Peterson noted that a major shift of USG policy on releasability was unlikely, with the Ambassador commenting that if this were a blanket requirement of SSM procurements, there would be very little business SSM could do with American companies. Bayar denied it was a blanket policy.

#### MAIN BATTLE TANKS

18. (SBU) Turning to main battle tank, Bayar conceded that the current program is dead despite official statements saying that company proposals were still being studied. He believed the Land Forces Command (TLFC) would need to reexamine and refine its requirement and then SSM would solicit new proposals. Meanwhile, an Israeli firm was upgrading Turkey's M-60 tanks and the GOT might buy some used tanks to meet current needs.

#### UNMANNED AERIAL VEHICLES

19. (SBU) Bayar noted that the bids to provide Turkey with UAVs were considerably over budget and "not doable." He wasn't sure how to proceed, but was certain this program would move faster than the tank procurement. MajGen Peterson suggested that SSM approach TLFC about revising its requirements in light of current technology. The result of looking at tasks to be performed rather than units to procure might be a realization that fewer units can do the job. Bayar was receptive to this idea. He acknowledged that with such a new and rapidly evolving technology, an off-the-shelf purchase would result in current technology in the inventory soonest; a protracted co-production program would likely deliver technology eventually that was a generation or two out of date.

#### SEA HAWKS

110. (SBU) As soon as Bayar raised Sea Hawks, the Ambassador warned that extending the EXIM Bank helicopter guarantee facility for that program had been politically difficult, and if it were not used soon, it would likely be lost. Bayar understood the need to use the credit line soon if at all, but noted that Turkish Treasury objected to the terms and SSM would likely need to work on them if EXIM credits were to be used. (Turkish Treasury reportedly believes the window of time between when the financing is provided and when it must be repaid is too short.) However, Bayar continued, the two sides are so far apart on price, that he had "minimal hope" of moving forward. SSM staff had developed what they thought the price should be based on a contract for the type of aircraft six years earlier. When the Ambassador suggested that the equipment had evolved over time and one should not expect to buy today's technology at yesterday's price, Bayar claimed the SSM price included consideration of technological changes and Turkish unique configuration requirements. (Comment: Subsequently, a Sikorsky representative informed the Embassy that SSM had increased the number of aircraft it had previously planned to purchase from 8 to 12, eliminated the expensive simulators from the package, and demanded Sikorsky provide a discount for the increased volume. Turkish Navy sources told Sikorsky that they were unaware of SSM's changing the requirements, and that the procurement agency did not have the authority to do so on its own. The representative expected his company to refuse to meet SSM's demands.)

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The Bazaar Remains the Bazaar  
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111. (C) Comment: Many American defense industry representatives were favorably impressed with the American-educated Bayar when they heard him speak at the American Turkish Council conference in Washington last month. He was seen as an intelligent person with business savvy -- someone whom might be serious about trying to fix the many problems involved in doing business with SSM. As a former career official of SSM and one of the original authors of the ATAK RFP, he certainly understood the organization well. However, feedback we have received from Bayar's performance in private sessions with individual industries has been almost universally negative -- making unreasonable demands on terms and conditions and on price not unlike his predecessors. Certainly, demands for complete release of source codes and promises of an imminent decision on the attack helicopter program are not new. It is hard to judge whether Bayar's hard line on individual programs with the Ambassador was part of the effort to drive down the offer price of American companies or reflected real readiness to walk away from years of negotiation with both Bell and Sikorsky. In any event, it is clear that the early hope that Bayar would make SSM easier to deal with is not going to be realized, at least not anytime soon. End comment.  
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